

Financial impact of providing water and sewer services to rural parts of the state that are not already served

1. From a financial perspective of serving the unserved, “the low hanging fruit has largely been picked.” Serving unserved areas of the state in general is more costly than serving other areas. At the same time, these areas have a lower financial capability in terms of median household income, vibrant local economy, etc. As a result, the ability of these areas to pay higher unit costs is lower than in many areas currently with service.

Disparities in rates charged by different cities and counties (likely as compared to size of system, number of residents served and other relevant comparative factors)

1. Small town systems and systems serving unincorporated areas tend to charge significantly higher rates than larger municipal systems.
2. Information from financial audit reports shows that, even with the higher rates, small systems often do not collect enough to cover their current operating costs.
3. Newer systems tend to have higher rates than established systems for a variety of reasons. They often serve lower density rural areas (see point above). Also, the federal government no longer makes the significant investments in systems that it made in the 70’s and 80’s. Newer rural systems (eg. Chatham County) and suburban systems (eg. Cary) have very few facilities that were built with federal dollars.
4. Households served by city systems that live outside city boundaries normally pay higher rates than city residents, sometimes as much as 2 or 3 times what residents who live inside city boundaries pay.
5. The increased environmental sensitivity and subsequent regulation in some watersheds have influenced rates in those regions (e.g. sewer rates in Neuse and Tar-Pamlico Watersheds are higher than in other watersheds).

Trends in regionalization

1. Regionalization takes a variety of forms in North Carolina. Relatively few new independent regional entities (e.g. Authorities, Metropolitan Districts) have been or are being created. Most regional utilities are actually county systems (e.g. Harnett County) or city systems (e.g. Salisbury, Charlotte) with inter-local agreements. These agreements take many different forms. Some of these efforts and agreements have encountered conflicts over the last few years. Anecdotally, it seems that tension over rates has been a sticking point for many regional efforts. Some other states (WV, KY) have more autonomous regional utilities than North Carolina.
2. Many potential regionalization plans have undeniable public and financial advantages at the aggregate level but never advance because of local power struggles. There are also very real local financial disincentives that hinder some efforts, and the average aggregate costs usually don't drive local decisions. For example, a county-wide system may be able to provide water to all its citizens for an average of \$50 per household, while the average cost per household would be \$70 if the small towns within the county, a few subdivisions and the unincorporated areas of the county each have their own system. If one of the towns in the county can provide water to their citizens for \$45/household, though, they are unlikely, for understandable reasons, to be excited about joining the regional county-wide system.
3. State and federal funders have talked about promoting regionalization for years and employ a variety of approaches ranging from "bonus points" to significant financial incentives (more grants or lower interest rates for certain type of partnerships).

Comparative data from other southeastern states (including funding sources, structure of water and sewer systems, authorized debt financing mechanisms and user rates charged)

1. North Carolina's state investments have been on par or greater than other states in the recent past (taking into account the 1998 bond proceeds), but these investments have been made in a feast-or-famine manner. The swings in state funding assistance have had some negative impacts on how projects are planned and built. There is evidence that some utilities will delay implementing needed projects in order to wait for the next big state funding influx. On the other hand, when the money comes in big doses, the carrying capacity of construction and design resources across the state can be stretched causing some project delays.
2. States have employed a variety of different strategies to promote infrastructure investment that include: grant financing (NC), direct loans (GA, WV), pooled

loan programs (VA), loan guarantees (VA), and structured leveraged financing (AL).

3. States with multiple federal and state programs employ a range of coordination strategies that include: regular meetings; full financial service infrastructure financing authorities (Georgia); co-funding packaging (WV); and outreach services (AZ).

Best practices in water and sewer infrastructure development and financing

1. There are best practices that can be done at the local level and best practices that can be done at the state and federal level. Many of these practices lead to some savings, but often the savings are small compared to the need. Some of these are mentioned above.
2. State best (or at least alternative) practices include longer term financing, leveraging, facilitating co-funding packages, and careful analysis of rates in determining grant allocations. Some of the most important local practices are basic and almost common sense, yet difficult for many, particularly small utilities. Local financial management practices that support infrastructure include: realistic capital improvement plans (CIP), as opposed to wish lists; cash flow planning; leak detection; planned and periodic rate increases; use of capital reserve funds; and asset management/inventory.

Issues in stormwater infrastructure financing

1. North Carolina has seen a relative proliferation of stormwater utilities over the last few years. The most recent and comprehensive list put together by Triangle J.
2. Household fees are generating a significant amount of new revenue for some utilities. However, a significant amount of this revenue is used for existing services that, in the past, were funded with general revenue; as a result, increases in available funds for capital purposes have been only relatively modest.
3. There are very limited sources of state and federal public funding for stormwater capital projects (CWMTF is one of the few programs).
4. A few larger utilities have started to do more debt/bond financing for large stormwater projects, but many utilities continue to rely on cash or pay-as-you-go funding.